

[REDACTED]
Date: SEP 25 1989

Person to Contact:
[REDACTED]

Contact Telephone Number:
[REDACTED]

Refer Reply to:
[REDACTED]

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption under section 501(c)(6) of the Internal Revenue Code.

The evidence presented disclosed that you were incorporated on [REDACTED], under the Not-for Profit Corporation Law in the State of [REDACTED].

The purposes for which the corporation was formed are as follows:

(i) to encourage the creation and retention of permanent private sector jobs through the stimulation of investment in emerging or expanding small businesses in [REDACTED];

(ii) to solicit, compile and profile information regarding opportunities for risk capital investment in new or emerging small business ventures;

(iii) to identify active investors in small businesses and profile their investment objectives; and

(iv) to provide a timely, confidential and objective referral system which serves the needs of the small business entrepreneur and the small business investor.

The information submitted with your Application Form 1024 indicates that your primary activity consists of operating a venture capital computer matching service in [REDACTED].

This enterprise consists of bringing together potential investors desiring to invest in small businesses with entrepreneurs who are seeking investment capital. Your organizations program seeks to achieve this purpose by processing information obtained by potential investors and entrepreneurs on questionnaire format applications; matching prospective investors and entrepreneurs based on compatible business profiles and providing the investor with additional information pertaining to an entrepreneur, including profit and loss statements and contact information, should the investor express an interest in a particular entrepreneur. You have stated that you currently do not have defined membership requirements and although your organization does not require membership fees, it does request a service charge sufficient to cover costs incurred in the program. You have further stated that the organization has proposed to advertise its services through print and media advertisements.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest. Its activities should be directed towards the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

In Revenue Ruling 58-294, 1958-1 C.B. 244 an association was organized and operated for the purpose of promoting uniform business, advertising and fair trade practices in connection with the manufacture and sale of a certain patented product. Membership in the association was limited to any person, firm, or corporation licensed to manufacture and sell the specified product. It was held that since the association was engaged in furthering the business interests of the dealers in the particular patented product, rather than the improvement of business conditions of one or more lines of business, it does not qualify for exemption from Federal income tax as a business league under section 501(c)(6) of the Code.

In the case of National Muffler Dealers Association v. U.S. 440 U.S. 472 (1979) the court held that an association of a particular brand name of muffler dealers does not qualify for exemption because the association is not engaged in the improvement of business conditions of a line of business.

An IRC 501(c)(6) organization's primary activity cannot be performing particular services for members.

Section 1.501(c)(6)-1 of the Income Tax Regulations also states, in part, that an organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self sustaining, is not a business league. An association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated.

In Revenue Ruling 59-391, 1959-2 C.B. 151, an organization composed of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession, was created for the purpose of exchanging information on business prospects and has no common business interest other than a desire to increase sales of members. Such an organization is not entitled to exemption as a business league under section 501(c)(6) of the Code.

In the case of Oklahoma City Retailer Ass'n (CA-10) 64-1 USTC par. 9467, 331 F.2d 328., the court held that a credit rating association did not qualify as a tax-exempt business league under section 501(c)(6) of the Code where its primary activity was the performance of particular services for individual persons.

Like the organizations described in the Revenue Rulings and court cases cited above, your organization is engaged in activities that are not within the purview of section 501(c)(6) of the Code and the regulations pertaining to that code section.

Like the organization described in Rev. Rul. 59-391, your organization has not established that it is an association of persons having a common business interest. Your activities do not further any common business interest and, like the organization described in Rev. Rul. 58-294, your activities serve to further the business interests of your individual clients rather than the improvement of business conditions of one or more lines of business. In addition, like the organization described in the case of Oklahoma City Retailer Ass'n, your organization's primary activity is the performance of particular services for individuals rather than the promotion of the collective interests of an industry as a whole.

Accordingly, we conclude that you do not meet the requirements for exempt status under section 501(c)(6) of the Code and propose to deny your request for exemption under that section.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completion.

If we do not hear from you within that time, this determination will become final.

Sincerely yours,

A solid black rectangular box used to redact the signature of the District Director.

District Director

Enclosure: Publication 892